

Audited Financial Statements

BAHAMAS DEVELOPMENT BANK

December 31, 2017

BAHAMAS DEVELOPMENT BANK

Audited Financial Statements

December 31, 2017

CONTENTS

	Page
Independent Auditors' Report	1-3
Statement of Financial Position	4
Statement of Comprehensive Operations	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Notes to Financial Statements	8-37

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
BAHAMAS DEVELOPMENT BANK

Opinion

We have audited the financial statements of the Bahamas Development Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive operations, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2, page 8 in the notes to financial statements. Although Management has taken steps concerning the going concern matters which are discussed in Note 2, these conditions along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern without the continued financial support of its sole shareholder, the Government of The Commonwealth of The Bahamas.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

To the Shareholders of
BAHAMAS DEVELOPMENT BANK

Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

To the Shareholders of
BAHAMAS DEVELOPMENT BANK

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

March 20, 2018

Nassau, The Bahamas


CHARTERED ACCOUNTANTS

BAHAMAS DEVELOPMENT BANK

Statement of Financial Position
(Expressed in Bahamian dollars)

December 31, 2017

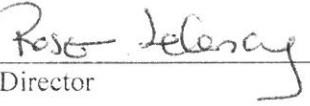
	Notes	2017 \$	2016 \$
ASSETS			
Cash	5, 20, 23	4,315,409	3,893,659
Restricted deposits - sinking fund	5, 20, 23, 25	13,745,553	15,971,686
Loans receivable	6, 23	21,325,062	21,162,445
Interest receivable	6, 23	238,428	239,524
Other assets	7, 23	606,406	799,299
Fixed assets, net	8	126,156	146,434
TOTAL ASSETS		40,357,014	42,213,047
LIABILITIES AND BAHAMAS GOVERNMENT EQUITY			
LIABILITIES			
Customer deposits	9, 20, 23	1,189,405	776,729
Accounts payable and accrued expenses	10, 20, 23	422,977	339,076
Long-term loans	11, 20, 23, 25	45,804,976	49,646,420
Interest payable	11, 20, 23	402,958	1,308,557
Due to The Bahamas Government	12, 20, 23	24,918,096	21,452,520
Total liabilities		72,738,412	73,523,302
BAHAMAS GOVERNMENT EQUITY			
Share capital	13	28,960,256	28,960,256
Reserve fund	14	273,128	273,128
Accumulated deficit		(61,614,782)	(60,543,639)
Total Bahamas Government Equity		(32,381,398)	(31,310,255)
TOTAL LIABILITIES AND BAHAMAS GOVERNMENT EQUITY		40,357,014	42,213,047

COMMITMENTS

19

These financial statements were approved on behalf of the Board of Directors on March 20, 2018 by the following:


Director


Director

See accompanying notes. Independent Auditors' Report pages 1 through 3.

BAHAMAS DEVELOPMENT BANKStatement of Comprehensive Operations
(Expressed in Bahamian dollars)

Year ended December 31, 2017

	Notes	2017 \$	2016 \$
INCOME			
INTEREST INCOME			
Loans	6	1,273,614	1,511,632
Sinking fund	5, 20	496,556	580,249
Interest subsidy	12, 15, 20	248,757	298,082
Deposits	5	37,364	21,977
Total interest income		2,056,291	2,411,940
Interest expense	11, 20	(1,818,816)	(2,200,862)
Net interest income		237,475	211,078
LOAN RECOVERY	6	991,486	532,733
OTHER INCOME	16	329,696	213,207
TOTAL INCOME		1,558,657	957,018
NON-INTEREST EXPENSES			
General and administrative costs	17	(2,572,374)	(2,760,098)
Depreciation and amortization	8	(57,426)	(74,894)
Total non-interest expenses		(2,629,800)	(2,834,992)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,071,143)	(1,877,974)

See accompanying notes. Independent Auditors' Report pages 1 through 3.

BAHAMAS DEVELOPMENT BANK

Statement of Changes in Equity
(Expressed in Bahamian dollars)

Year ended December 31, 2017

	Notes	Share Capital \$	Reserve Fund \$	Accumulated Deficit \$	Total \$
Balances at December 31, 2015, as previously reported	13, 14	28,960,256	273,128	(57,403,977)	(28,170,593)
Prior year adjustment		-	-	(1,261,688)	(1,261,688)
Balances at December 31, 2015, as restated	13, 14	28,960,256	273,128	(58,665,665)	(29,432,281)
Total comprehensive loss for the year		-	-	(1,877,974)	(1,877,974)
Balances at December 31, 2016	13, 14	28,960,256	273,128	(60,543,639)	(31,310,255)
Total comprehensive loss for the year		-	-	(1,071,143)	(1,071,143)
Balances at December 31, 2017	13, 14	28,960,256	273,128	(61,614,782)	(32,381,398)

See accompanying notes. Independent Auditors' Report pages 1 through 3.

BAHAMAS DEVELOPMENT BANK

Statement of Cash Flows

(Expressed in Bahamian dollars)

Year ended December 31, 2017

	Notes	2017 \$	2016 \$
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Total comprehensive loss for the year		(1,071,143)	(1,877,974)
Adjustments for non-cash items:			
Depreciation and amortization	8	57,426	74,894
Decrease in provision for loan losses	6	(983,983)	(506,741)
Interest income from loans and deposits	5, 6	(1,310,979)	(1,533,609)
Interest subsidy	12, 15, 20	(248,757)	(298,082)
Interest expense	11, 20	1,818,816	2,200,862
Changes in operating assets and liabilities:			
Decrease in loans receivable		821,366	2,749,390
Decrease (increase) in other assets		192,893	(635,467)
Increase (decrease) in customer deposits		412,676	(131,860)
Increase in accounts payable and accrued expenses		83,901	168,706
Net cash (used in) from operations		(227,784)	210,119
Interest received		1,560,831	1,433,284
Interest paid		(2,724,415)	(1,828,139)
Net cash used in operating activities		(1,391,368)	(184,736)
INVESTING ACTIVITY			
Acquisition of fixed assets	8	(37,148)	(35,911)
Net cash used in investing activity		(37,148)	(35,911)
FINANCING ACTIVITIES			
Repayment of long-term loans		(3,841,444)	(4,105,969)
Decrease in restricted deposits - sinking fund		2,226,134	3,684,885
Increase in due to The Bahamas Government		3,465,576	2,068,166
Net cash provided by financing activities		1,850,266	1,647,082
NET INCREASE IN CASH		421,750	1,426,435
Cash, beginning of the year		3,893,659	2,467,224
CASH, END OF THE YEAR	5	4,315,409	3,893,659

See accompanying notes. Independent Auditors' Report pages 1 through 3.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

1. GENERAL INFORMATION AND NATURE OF OPERATIONS

The Bahamas Development Bank (“the Bank”) was established by The Bahamas Development Bank Act 1974 (“the Act”) and is wholly owned by the Government of The Commonwealth of The Bahamas (“the Government”). The principal activities of the Bank are:

- to promote industrial, agricultural and commercial development in The Commonwealth of The Bahamas through financing of, or the investing in, approved enterprises;
- to encourage the participation in approved enterprises by citizens of The Commonwealth of The Bahamas; and
- generally to promote and enhance the economic development of The Commonwealth of The Bahamas.

The Bank officially commenced its operations on March 30, 1978. The Bank’s registered head office is located at Cable Beach, West Bay Street, Nassau, The Bahamas.

2. STATEMENT OF COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AND GOING CONCERN ASSUMPTION

The Bank’s financial statements are presented in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and are expressed in Bahamian dollars (“\$”), the Bank’s functional and presentation currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Going Concern

The Bank has incurred significant losses and reduction of equity due to the performance of its loan portfolio and loan provisioning. While its liquidity and ability to meet obligations may be significantly impacted by the loan losses, the Directors are satisfied that the Bank is currently a going concern and that the preparation of these accounts on that basis is appropriate due to the continued support of the Government of The Commonwealth of The Bahamas.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

3. NEW OR REVISED STANDARDS OR INTERPRETATIONS

New and revised standards that are effective for annual periods beginning on or after January 1, 2017

The standards and amendments that are effective for the first time in 2017 (for entities with a December 31, 2017 year-end) and could be applicable to the Bank are:

- Annual Improvements to IFRSs' 2014-2016 cycle;
- Amendments to IAS 1, *Disclosure Initiative*; and
- Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses*.

These amendments do not have a significant impact on these financial statements and therefore disclosures have not been made.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorization of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Bank. Information on those expected to be relevant to the Bank's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Bank's financial statements.

IFRS 9, *Financial Instruments*

The new standard for financial instruments (IFRS 9) introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Bank's management is in the process of assessing the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual periods beginning on or after January 1, 2018.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

3. NEW OR REVISED STANDARDS OR INTERPRETATIONS (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank (continued)

IFRS 15, *Revenue from Contracts with Customers* (continued)

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. The Bank's management is in the process of assessing the impact of IFRS 15 on these financial statements. Under this method, IFRS 15 will only be applied to contracts that are incomplete as at January 1, 2018.

IFRS 16, *Leases*

IFRS 16 will replace IAS 17 and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Bank's Management has yet to fully assess the impact of the Standard and therefore is unable to provide quantified information.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of financial statements

The financial statements are presented in accordance with IAS 1, *Presentation of Financial Statements* (Revised 2007). The Bank has elected to present the "Statement of Comprehensive Operations" in one statement.

Management's use of judgments and estimates

The Bank uses accounting estimates and assumptions in the preparation of financial statements. Although these estimates are based on management's best knowledge of current events and transactions, actual results may ultimately differ from those estimates. The effect of any changes in estimates will be recorded in the Bank's financial statements when determinable. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following presents a summary of these significant judgments and estimates:

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statements:

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's use of judgments and estimates (continued)

Judgments (continued)

Taxes

On January 1, 2015, the Government of The Bahamas implemented the Value Added Tax ("VAT") regime, with three (3) categories for goods and services, which includes two rates of VAT of 7.5% and 0%, and a third category classified as Exempt. The Bank has registered with the Ministry of Finance and is a VAT registrant with a VAT certificate and Tax Identification Number 100100934 and is obligated to comply with the Act and Associated Regulations.

Income that is subject to tax is recognized gross of the taxes and the corresponding withholding tax is recognized as an expense in the statement of comprehensive operations. No other taxes are applicable to the Bank.

Operating lease commitments - Bank as lessee

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Bank. Lease contracts, which transfer to the Bank substantially all the significant risks and rewards incidental to ownership of the leased items, are classified as finance leases. Otherwise, they are considered as operating leases.

The Bank entered into a commercial property lease and determined, based on an evaluation of the terms and conditions of the arrangement, that the lessor retains all the significant risks and rewards of ownership of the property and therefore accounts for the contract as an operating lease.

Estimates

Estimation of allowance for loan losses

In determining the amounts recorded for impairment losses in the financial statements, management makes judgments regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from loans receivable.

Management also makes estimates of the likely estimated future cash flows from impaired receivables, as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observed on individual significant receivables with similar characteristics, such as credit risk.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's use of judgments and estimates (continued)

Estimates (continued)

Estimation of allowance for loan losses (continued)

The allowance is maintained at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the loans and other pertinent factors. Loans deemed uncollectible are charged to the allowance account. Provisions for loan losses and recoveries on loans previously written off are added to the allowance account.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimize any differences between loss estimates and actual loss experience.

As at December 31, 2017, the Bank's allowance for loan losses amounted to \$12,815,996 (2016: \$13,799,979), as disclosed in Note 6.

Estimation of useful lives of fixed assets

The Bank estimates the useful lives of its fixed assets based on the period over which the assets are expected to be available for use. The estimated useful lives of the fixed assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of the fixed assets is based on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As at December 31, 2017, the Bank's fixed assets, net amounted to \$126,156 (2016: \$146,434), as disclosed in Note 8.

Cash and restricted deposits - sinking fund

Cash is comprised of cash at bank and in hand, which are subject to an insignificant risk of change in value. Restricted deposits – sinking fund are short-term deposits with contractual maturities of one year or less and are being held in escrow for long-term loan repayments.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The Bank recognizes a financial asset or a financial liability on the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by the regulation or convention in the marketplace are recognized on the settlement date.

Classification and subsequent measurement of financial assets and financial liabilities

Financial assets

Financial assets are divided into the following categories:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is subsequently measured and whether any resulting income and expense are recognized in the statement of comprehensive operations or directly in equity.

The Bank recognizes all financial assets using trade date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets are recognized in the statement of comprehensive operations.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Any change in their value is recognized in the statement of comprehensive operations. Discounting, however, is omitted where the effect of discounting is immaterial.

As of December 31, 2017, the Bank's cash, restricted deposits - sinking fund, loans receivable, interest receivable and other assets, excluding prepayments and VAT receivable, fall into this category.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and subsequent measurement of financial assets and financial liabilities (continued)

Financial liabilities

Financial liabilities are recognized when the Bank becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the statement of comprehensive operations.

The Bank's financial liabilities include customer deposits, accounts payable and accrued expenses excluding VAT payable, long-term loans, interest payable and due to The Bahamas Government, which are measured at amortised cost using the effective interest rate. Discounting, however, is omitted where the effect of discounting is immaterial.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset or, where applicable, a part of a financial asset or a part of a group of similar financial assets is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantial all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantial all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender with substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive operations.

Offsetting of financial instruments

Financial assets are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in the statement of comprehensive operations unless required, or permitted by any accounting standard, or interpretation as specifically disclosed in the accounting policies of the Bank.

Impairment of financial assets

The Bank assesses at each financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Different criteria to determine impairment apply for each category of financial assets, which are described below.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and the region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any impairment in value in the statement of financial position. Cost includes the value of consideration exchanged, or fair value in the case of donated or subsidized assets, and those costs directly attributable to bringing the item to working condition for its intended use.

Subsequent expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to income in the period when the costs are incurred. In a situation where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditures are capitalized as an addition to the cost of fixed assets.

These fixed assets are depreciated on the straight-line basis over the following estimated useful lives of the respective assets:

Motor vehicles	4 years
Computer equipment and software	5 years
Office machines	5 years
Others	5 years
Furniture, fixtures and fittings	10 years
Leasehold improvements	10 years

When assets are retired or otherwise disposed of, the costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to operations.

Impairment of non-financial assets

An assessment is made at each statement of the financial position date to determine whether there is any indication of impairment of any assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is computed as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the period in which it arises unless the asset is carried at a revalued amount, in which case the impairment is charged to the revaluation increment of the said asset.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognized for the asset in prior years.

A reversal of an impairment loss is credited to current operations.

Long-term loans

Long-term loans, are initially recognized at fair value, net of issue costs incurred, and are subsequently recognized at amortized cost. Any difference between net proceeds and the redemption value is recognized in the statement of comprehensive operations over the period of the borrowings using the effective interest method.

Customer deposits

Customer deposits are recognized when the Bank has a legal or constructive obligation as a result of past event, and it is probable that a payment will be required to settle the obligation.

Income and expense

Interest income and expense are recognized using the effective interest method. Interest subsidy, received from the Government to subsidize rent, utilities and other operating expenses of the Bank, are recognized as income in the period in which the conditions attached to them have been satisfied. These amounts are presented gross in the statement of comprehensive operations.

All other income and expenses are recognized on the accrual basis of accounting.

Interest on loans

Interest on loans is accrued and credited to income based on the principal amount outstanding. Interest income is only accrued on performing loans. The Bank considers those loans with arrears amounting to less than three months normal activity as performing.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income and expense (continued)

Interest on loans (continued)

Accrual of interest on loans classified as non-performing is discontinued and previously recorded, but unpaid interest is reversed and charged against current operations.

Interest income on non-performing loans is recognized only when received or when the loan is refinanced and projected cash proceeds are deemed sufficient to repay both principal and interest.

Employee benefits

Employee wages and salaries are recognized on an accrual basis. The Bank's employees are entitled to a performance based incentive calculated as a percentage of their salary, payable only on successful completion of the respective employment contract. These incentives are recognized in the statement of comprehensive operations over the period of the employment contract and any forfeited amounts are reversed during the period of forfeiture.

Defined contribution pension plan

The Bank pays fixed contributions into an independent entity in relation to a pension plan for its qualified employees. The Bank has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognized as an expense in the consolidated statement of comprehensive operations in the period that relevant employee services are received.

Related party transactions

Transactions between related parties are based on terms similar to those offered to non-related parties. The parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in the contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or there is substantial change to the asset.

Foreign currency transactions

Transactions in currencies other than Bahamian dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of the financial position date, assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Gains and losses arising on translation are included in the statement of comprehensive operations.

5. CASH AND RESTRICTED DEPOSITS - SINKING FUND

Cash as at December 31, 2017 consists of the following:

	2017	2016
	\$	\$
Cash at banks	4,314,609	3,892,859
Cash on hand	800	800
	4,315,409	3,893,659

The Bank earns interest on cash at banks at the prevailing market interest rates. The average interest rate for the year ended December 31, 2017 was 0.75% (2016: 0.75%). Interest income earned and collected on cash at banks during the year amounted to \$37,364 (2016: \$21,977).

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

5. CASH AND RESTRICTED DEPOSITS - SINKING FUND (continued)

Restricted deposits - sinking fund as at December 31, 2017 consists of the following:

	2017	2016
	\$	\$
Fixed deposits	13,382,053	15,608,186
Bahamas Government Registered Stocks	363,500	363,500
	13,745,553	15,971,686

In accordance with Section 19 of the Act, the Bank established a sinking fund for the partial redemption of the Series A, B, C and D bonds issued to the National Insurance Board and the Central Bank of The Bahamas. The fixed deposits with maturity of six (6) months to one (1) year earn interest at an annual rate of 1.00% to 3.5% (2016: 1.5% to 3.5%). The Bahamas Government Registered Stocks are being held for the long term and are stated at amortized cost, which approximates fair value. The stocks bear interest at prime and have maturity dates of 2024 through 2025.

As at December 31, 2017, interest receivable from restricted deposits - sinking fund amounted to \$384,310 (2016: \$515,373), as disclosed in Note 7. Interest from sinking fund earned during the year amounted to \$496,556 (2016: \$580,249).

6. LOANS RECEIVABLE

Loans receivable as at December 31, 2017 consist of the following:

	2017	2016
	\$	\$
Performing	10,507,159	9,934,954
Non-performing	21,176,593	22,731,184
Extraordinary advances	1,990,359	1,841,582
Employees	466,947	454,704
	34,141,058	34,962,424
Less: Allowance for loan losses	(12,815,996)	(13,799,979)
	21,325,062	21,162,445

	2017	2016
	\$	\$
Current portion	10,974,105	10,853,645
Non-current portion	10,350,957	10,308,800
	21,325,062	21,162,445

The above outstanding loans earned interest at rates ranging from 0% to 14% per annum. Interest income on loans earned during the year amounted to \$1,273,614 (2016: \$1,511,632). Interest receivable as at December 31, 2017 amounted to \$238,428 (2016: \$239,524).

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

6. LOANS RECEIVABLE (continued)

Loans recovery earned during the year are as follows:

	2017	2016
	\$	\$
Decrease in provision for loan losses	983,983	506,741
Loan losses recovery	7,503	25,992
	991,486	532,733

An analysis of the change in the allowance for loan losses accounts is as follows:

	2017	2016
	\$	\$
Balance, beginning of the year	13,799,979	14,306,720
Decrease in provision for loan losses	(983,983)	(506,741)
Balance, end of the year	12,815,996	13,799,979

The aging of loans receivable as at December 31, 2017 is as follows:

2017				
	Current	31-60	61-90	Over 90
	days	days	days	days
	\$	\$	\$	\$
Loans receivable	8,769,158	1,414,594	790,353	10,350,957
				21,325,062

2016				
	Current	31-60	61-90	Over 90
	days	days	days	days
	\$	\$	\$	\$
Loans receivable	8,769,436	1,650,100	434,109	10,308,800
				21,162,445

7. OTHER ASSETS

Other assets as at December 31, 2017 consist of the following:

	2017	2016
	\$	\$
Interest receivable from restricted deposits - sinking fund	384,310	515,373
Offset loans	78,561	142,198
Accounts receivable	50,471	39,637
VAT receivable	31,645	-
Prepayments	23,275	29,843
Others	19,057	36,495
Late fee receivable	10,187	26,853
Security deposits	8,900	8,900
	606,406	799,299

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

8. FIXED ASSETS, net

Fixed assets as at December 31, 2017 consist of the following:

	Computer equipment and software \$	Furniture, fixtures and fittings \$	Office machines \$	Motor vehicles \$	Leasehold improvements \$	Other \$	Total \$
Cost:							
December 31, 2015	1,765,388	287,952	288,534	146,480	1,051,068	226,478	3,765,900
Additions	13,988	-	-	-	1,454	20,469	35,911
December 31, 2016	1,779,376	287,952	288,534	146,480	1,052,522	246,947	3,801,811
Additions	13,709	940	-	-	20,759	1,740	37,148
December 31, 2017	1,793,085	288,892	288,534	146,480	1,073,281	248,687	3,838,959
Accumulated Depreciation and Amortization:							
December 31, 2015	1,707,840	283,091	276,906	142,345	955,957	214,344	3,580,483
Depreciation and amortization	33,674	4,861	3,221	4,135	23,169	5,834	74,894
December 31, 2016	1,741,514	287,952	280,127	146,480	979,126	220,178	3,655,377
Depreciation and amortization	23,298	85	2,250	-	24,385	7,408	57,426
December 31, 2017	1,764,812	288,037	282,377	146,480	1,003,511	227,586	3,712,803
Net Book Value							
December 31, 2017	28,273	855	6,157	-	69,770	21,101	126,156
December 31, 2016	37,862	-	8,407	-	73,396	26,769	146,434

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

9. CUSTOMER DEPOSITS

Customer deposits as of December 31, 2017 consist of the following:

	2017	2016
	\$	\$
Mailboat Subsidy - Ministry of Transport	565,170	86,918
Other customer deposits and advances	252,536	268,221
Security deposits held as collateral for loans	132,184	143,909
Loan prepayments	97,679	161,923
Legal fees, stamp tax, recording fees, etc.	54,243	60,595
Insurance premiums	50,662	55,163
Apiculture Program - Grand Bahama	36,931	-
	1,189,405	776,729

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as at December 31, 2017 consist of the following:

	2017	2016
	\$	\$
Accrued expenses	213,058	87,347
Pension plan benefit obligations	176,930	226,912
Other accounts payable	32,989	2,258
VAT payable	-	22,559
	422,977	339,076

The Bank's accounts payable and other liabilities are short-term, and the carrying values are considered to be a reasonable approximation of fair value.

Value Added Tax ("VAT")

As a VAT registrant, the Bank is allowed to apply its input tax against its output tax to arrive at a net VAT outstanding. As of December 31, 2017, the net VAT transactions resulted in a receivable balance amounting to \$31,645 (2016: \$22,559 payable), as disclosed in Note 7.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

11. LONG-TERM LOANS

Long-term loans as of December 31, 2017 consist of the following:

	2017	2016
	\$	\$
National Insurance Board	39,000,000	42,000,000
The Central Bank of The Bahamas	4,000,000	4,000,000
	43,000,000	46,000,000
European Investment Bank	54,976	96,420
The Central Bank of The Bahamas	2,750,000	3,550,000
	45,804,976	49,646,420
Current portion	2,282,300	3,427,227
Non-current portion	43,522,676	46,219,193
	45,804,976	49,646,420

Interest expense incurred during the year amounted to \$1,818,816 (2016: \$2,200,862) of which \$402,958 (2016: \$1,308,557) was outstanding as of December 31, 2017.

The borrowings are repayable as follows:

The Central Bank of The Bahamas

As at December 31, 2017 and 2016, the Bank issued the following bonds to The Central Bank of The Bahamas:

Bond	Series	Amount	Rate	Issue Date	Year of Maturity
		\$			
10	C	2,000,000	4.25%	13/7/2005	2025
11	C	1,000,000	4.25%	17/10/2005	2025
12	C	1,000,000	4.25%	19/10/2005	2025
		4,000,000			

There were no partial repayments made during the year. The interest on the bonds is variable and payable in semi-annual instalments.

As at December 31, 2017, the Bank had outstanding loans with The Central Bank of The Bahamas as follows:

Loan	2017	2016	Rate	Due date	Installment Payments
	\$	\$			\$
Loan 1	-	300,000	2.00%	April 28, 2018	75,000
Loan 2	2,750,000	3,250,000	2.00%	October 28, 2018	125,000
	2,750,000	3,550,000			

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

11. LONG-TERM LOANS (continued)

The Central Bank of The Bahamas (continued)

During the year, the Bank paid \$800,000 (2016: \$75,000). These loans are repayable in semi-annual installments.

National Insurance Board

As at December 31, 2017, the Bank had outstanding bonds with the National Insurance Board, as follows:

Bond	Series	2017 \$	2016 \$	Rate	Issue Date	Year of Maturity
1	A	10,000,000	10,000,000	4.25%	28/11/2000	2020
2	B	-	1,000,000	3.25%	14/06/2002	2017
3	B	-	2,000,000	3.25%	31/07/2002	2017
4	B	2,000,000	2,000,000	3.25%	15/08/2003	2018
5	A	2,000,000	2,000,000	4.25%	29/12/2003	2024
6	A	2,000,000	2,000,000	4.25%	25/03/2004	2024
7	A	1,000,000	1,000,000	4.25%	29/09/2004	2024
8	B	1,000,000	1,000,000	3.25%	16/06/2005	2020
9	C	2,000,000	2,000,000	4.25%	05/05/2006	2026
10	D	2,000,000	2,000,000	3.25%	11/08/2006	2021
11	D	1,000,000	1,000,000	3.25%	03/01/2007	2022
12	C	2,000,000	2,000,000	4.25%	06/02/2007	2027
13	C	2,000,000	2,000,000	4.25%	05/04/2007	2027
14	D	2,000,000	2,000,000	3.25%	02/08/2007	2022
15	D	2,000,000	2,000,000	3.25%	30/11/2007	2022
16	C	2,000,000	2,000,000	4.25%	02/04/2008	2028
17	D	2,000,000	2,000,000	3.25%	18/08/2008	2023
18	C	2,000,000	2,000,000	4.25%	14/11/2008	2028
19	C	1,000,000	1,000,000	4.25%	31/03/2009	2029
20	D	1,000,000	1,000,000	3.25%	31/03/2009	2024
		39,000,000	42,000,000			

During the year, the Bank had partial repayment of bonds amounting to \$3,000,000 (2016: \$4,000,000). Also during the year, interest rates for Series B and D was reduced from 3.75% to 3.25%.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

11. LONG-TERM LOANS (continued)

European Investment Bank

As at December 31, 2017, the Bank had an outstanding loan with the European Investment Bank with a principal balance of \$54,976 (2016: 96,420), of which \$41,444 (2016: 30,969) was paid during the year. The loan is repayable in Euros in semi-annual installments expressed as a percentage of the outstanding loan balance, at an interest rate of 1% (2016: 1.00%). The loan is due to be repaid by February 1, 2020.

The Government also guarantees long-term debt due to European Investment Bank.

Principal repayments of long-term debt for each of the next five years is as follows:

Year	2017 \$	2016 \$
2017	-	3,427,227
2018	2,427,518	2,427,518
2019	277,663	277,663
2020	11,264,012	11,264,012
2021	2,250,000	2,250,000
2022	5,000,000	5,000,000

12. DUE TO THE BAHAMAS GOVERNMENT

The total amount due to The Bahamas Government as at December 31, 2017 was \$24,918,096 (2016: \$21,452,520).

Principal and interest repayments on the long-term loans during the year amounting to \$3,552,330 (2016: \$1,897,702) were paid by the Government on behalf of the Bank. The Government has agreed to pay the long-term loans of the Bank until further notice.

Furthermore, the Government has agreed to apply the government guarantee claims and interest subsidies due to the Bank during the year, amounting to \$248,757 (2016: \$298,082) against the above transfers made on behalf of the Bank.

Additionally, the Government has agreed for the Bank to apply administrative fees to facilitate the Government's Mailboat subsidies on behalf of the Ministry of Transport and Aviation. The fee of 2.5% applied during the year amounted to \$164,138 (2016: 109,425).

The Government paid the Bank administration fees of 5% for administering funds disbursed for parties affected by the New Providence Roadworks Improvement Project and Micro Loans program, which was derived from the same source.

Due to The Bahamas Government is interest free and unsecured.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

13. SHARE CAPITAL

The share capital as at December 31, 2017 is comprised of the following:

	2017	2016
	\$	\$
Authorised		
10,000,000 shares of \$5 each	50,000,000	50,000,000
Issued and fully paid		
5,792,051 shares of \$5 each	28,960,256	28,960,256

All issued shares are owned and held by the Government.

14. RESERVE FUND

Under Section 20 of the Act, each year the Bank is required to set aside a minimum of 25% of net profits (if any) to a Reserve Fund to meet contingencies and for other purposes for which it may be required. At December 31, 2017, the total amount of Reserve Fund was \$273,128 (2016: \$273,128).

15. INTEREST SUBSIDY

During 2001, the Government mandated that the lending rate for the Bank be between 1.00% and 2.50% above the prime rate depending on risk factors. Following that requirement, the Government agreed to subsidise the difference between the Bank's lending rate and the Bank's normal spread of 5.00%.

The total interest subsidy for the year amounted to \$248,757 (2016: \$298,082), as disclosed in Note 12.

16. OTHER INCOME

Other income amounts earned during the year are as follows:

	2017	2016
	\$	\$
Fees and commissions	279,279	210,170
Other income	38,348	98
Net foreign exchange gain	12,069	2,939
	329,696	213,207

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

17. GENERAL AND ADMINISTRATIVE COSTS

General and administrative costs for the year ended December 31, 2017 are comprised of the following:

	Note	2017 \$	2016 \$
Salaries, Staff Cost, Executive expenses			
Salaries		1,353,259	1,364,661
NIB, Pension, and Insurance	18	295,917	489,904
Board expenses		90,358	99,588
Staff benefits and other		57,197	37,779
Executive allowances		44,420	54,202
		1,841,151	2,046,134
Professional fees		164,494	221,818
Repairs and maintenance		122,114	104,909
Rent	19	104,750	104,350
Computer expenses		81,942	58,242
Utilities		63,530	57,211
Telephone, telex and cable		63,376	86,171
Travel and transportation		33,215	19,152
Insurance		25,229	18,155
Security expense		23,188	23,174
Advertising		17,327	-
Office supplies and printing		15,681	6,410
Miscellaneous		5,734	-
Subscriptions		5,602	3,253
Bank charges		4,141	10,415
Entertainment		900	704
		2,572,374	2,760,098

18. DEFINED CONTRIBUTION PENSION PLAN

On February 1, 2011, the Bank changed its pension plan from a Defined Benefit Plan to a Defined Contribution Plan where both the Bank (employer) and the employees will contribute 5% of their equivalent gross salary. Employees have the option to contribute additional sums voluntarily.

In 2016, the pension plan was administered by Colina Financial Advisors Limited ("CFAL") but a portion of it remained administered by the Bank for the retirees existing as at December 31, 2016. As at December 31, 2017, all funds were administered by CFAL.

Pension contributions during the year amounted to \$64,916 (2016: \$279,536), which is included in NIB, Pension and Insurance expenses, as disclosed in Note 17. While pension plan benefit obligations as at December 31, 2017 amounted to \$176,930 (2016: 226,912), as disclosed in Note 10.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

19. COMMITMENTS

As at year-end, the Bank was committed to extend credit based on approved, but undisbursed loans amounting to \$943,456 (2016: \$720,092).

The Bank was also committed to rent payments as noted below.

The Bank's Nassau premises were leased from the Hotel Corporation of the Bahamas for an initial period of five years beginning in July 1992 with an option to renew for another five years at an annual rent of \$50,000 per annum. The lease agreement has not been renegotiated, however the lessor has allowed payments to continue in accordance with the expired lease agreement.

The lease on the Bank's Freeport office from Jurobsi Investments Ltd. was for an initial period of three years beginning December 2011 at a monthly rent of \$3,500, and has since been renewed for an additional three (3) years from December 1, 2017 through November 2020. The Bank also has the option to renew the lease term for an additional one (1) year.

Rent expense paid and incurred during the year amounted to \$104,750 (2016: \$104,350), as disclosed in Note 17.

As at December 31, 2017, the Bank had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017	2016
	\$	\$
Not later than one year	67,000	67,000
Later than one year but not more than five years	80,500	-
	147,500	67,000

20. RELATED PARTY BALANCES AND TRANSACTIONS

The Bank is related in terms of common ownership to all corporations and agencies owned by the Government. Transactions with such related entities are at arm's length basis.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

20. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

The Bank's balances and transactions with related parties consist of the following:

	2017	2016
	\$	\$
Balances:		
Cash	3,514,301	3,265,084
Restricted deposits - sinking fund	13,745,553	15,971,686
Customer deposits	602,101	86,918
Accounts payable and accrued expenses	29,490	22,559
Long-term loans	45,804,976	33,578,314
Interest payable	402,958	1,308,156
Due to The Bahamas Government	24,918,096	21,452,520
Transactions:		
Interest from sinking fund	496,556	580,249
Interest subsidy	248,757	298,082
Interest expense	1,751,370	2,196,977

Salaries and other short-term employee benefits paid to key management personnel totaled \$600,662 (2016: \$731,985). Loans to key management personnel of the Bank totaled \$166,174 (2016: \$208,892). The loans bear interest at a rate of 4.25% (2016: 4.75%), are secured and have fixed terms of repayment. Other bank employees receive loans on the same terms.

At year end, there was one (1) loan due from family members of key management personnel of the Bank, which totaled \$73,197 (2016: \$73,197) and was classified as non-performing. This loan has a fixed term of repayment and bear interest at a rate of 10.5% (2016: 10.5%). The loan is fully secured.

21. ASSETS UNDER MANAGEMENT

In December 2012, the Bahamas Government arranged with National Insurance Board (NIB) to place \$3,000,000 with the Bank at 3.75% interest. The purpose was to facilitate micro loans to businesses affected by the New Providence Roadworks Improvement Project. The Bank is to act as an executing agency in this transaction, attracting an administrative fee of 3% of approved loans upon disbursement. The Bank continues to administer the fund.

During the year, the Administration fees were renegotiated and are now 5% (2016: 5%). The funds being administered were no longer used for the New Providence Roadworks Improvement Project, and were being used to facilitate micro loans.

As of August 2016, the Bank administered payments to Mailboat owners based on instructions from The Ministry of Transport and Aviation, at an administration fee of 2.5%.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

22. CONCENTRATIONS OF ASSETS AND LIABILITIES

As at December 31, 2017, the Bank has the following concentrations of assets and liabilities according to geographic region and industry sector:

	Geographic Region	Industry	2017 %	2016 %
Cash	Bahamas	Financial sector	100.00	100.00
Loans receivable	Bahamas	Service	48.01	45.89
Loans receivable	Bahamas	Tourism	17.34	18.05
Loans receivable	Bahamas	Fishing	11.91	11.90
Loans receivable	Bahamas	Manufacturing	11.00	10.63
Loans receivable	Bahamas	Transportation	8.36	9.18
Loans receivable	Bahamas	Agriculture	1.93	2.90
Loans receivable	Bahamas	Staff	1.45	1.37
			100.00	100.00
Long-term debt	Bahamas	Financial sector	99.88	99.83
Long-term debt	Europe	Financial sector	0.12	0.17
			100.00	100.00

23. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Bank has exposure to the following risks from its use of financial instruments:

- Liquidity risk
- Credit risk
- Interest rate risk
- Market risk

This note presents information about the Bank's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial obligations when they become due. The Bank's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Bank ensures that it has sufficient liquid assets to settle obligations when they mature.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

23. RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Liquidity risk (continued)

The following tables summarize the maturity profile of the Bank's financial assets and liabilities as at December 31, 2017 based on contractual maturities:

	2017					Total
	On Demand	Less than one year	One to five years	Over five years	No specific maturity	
Financial Assets	\$	\$	\$	\$	\$	\$
Cash	4,315,409	-	-	-	-	4,315,409
Restricted deposits - sinking fund	-	12,838,710	-	363,500	543,343	13,745,553
Loans receivable	-	12,519,971	3,214,261	5,590,830	-	21,325,062
Interest receivable	-	238,428	-	-	-	238,428
Other assets	-	551,486	-	-	-	551,486
	4,315,409	26,148,595	3,214,261	5,954,330	543,343	40,175,938
Financial Liabilities						
Customer deposits	-	1,189,405	-	-	-	1,189,405
Accounts payable and accrued expenses	-	422,977	-	-	-	422,977
Long-term loans	-	2,282,300	18,791,645	24,731,031	-	45,804,976
Interest payable	-	402,958	-	-	-	402,958
Due to The Bahamas Government	-	-	-	-	24,918,096	24,918,096
	-	4,297,640	18,791,645	24,731,031	24,918,096	72,738,412
Liquidity gap	4,315,409	21,850,955	(15,577,384)	(18,776,701)	(24,374,753)	(32,562,474)

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

(Expressed in Bahamian dollars)

December 31, 2017

23. RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Liquidity risk (continued)

	2016					Total
	On Demand	Less than one year	One to five years	Over five years	No specific maturity	
	\$	\$	\$	\$	\$	\$
Financial Assets						
Cash	3,893,659	-	-	-	-	3,893,659
Restricted deposits - sinking fund	-	15,070,850	-	363,500	537,336	15,971,686
Loans receivable	-	10,853,645	4,453,659	5,855,141	-	21,162,445
Interest receivable	-	239,524	-	-	-	239,524
Other assets	-	769,456	-	-	-	769,456
	3,893,659	26,933,475	4,453,659	6,218,641	537,336	42,036,770
Financial Liabilities						
Customer deposits	-	776,729	-	-	-	776,729
Accounts payable and accrued expenses	-	316,517	-	-	-	316,517
Long-term loans	-	3,427,227	16,219,193	30,000,000	-	49,646,420
Interest payable	-	1,308,557	-	-	-	1,308,557
Due to The Bahamas Government	-	-	-	-	21,452,520	21,452,520
	-	5,829,030	16,219,193	30,000,000	21,452,520	73,500,743
Liquidity gap	3,893,659	21,104,445	(11,765,534)	(23,781,359)	(20,915,184)	(31,463,973)

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

23. RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Credit risk

Credit risk is the risk of financial loss arising if a customer or counter-party fails to meet its contractual obligations. The Bank's credit risk is primarily attributable to its cash and deposits with other banks and financial institutions and credit exposures to customers, including outstanding loan receivables and committed transactions. The Bank places cash and deposits with reputable local banks and financial institutions. All local contracted banks and financial institutions are regulated and monitored by the Central Bank of The Bahamas and account for 100% of cash deposits at year-end.

The Bank mitigates credit risk in its loan portfolio by requiring borrowers to provide a collateral equivalent to the loan balance and limiting the total value of any loan originated to a single individual or entity to 10% of total capital. Collateral held includes land, buildings, equipment, motor vehicles and boats.

The Bank's exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date and is summarized as follows:

	2017	2016
	\$	\$
Cash (excluding cash in hand)	4,314,609	3,892,859
Loans receivable	21,325,062	21,162,445
Interest receivable	238,428	239,524
Restricted deposits - sinking fund	13,745,553	15,971,686
	39,623,652	41,266,514

Interest rate risk

The Bank provides financial and technical assistance to Bahamian entrepreneurs in the areas of agriculture, fishing, marine and land transportation, tourism, manufacturing, service enterprises and other commercial operations.

Interest rate risk is the potential adverse impact on earnings caused by movements in interest rates. The Bank's interest bearing assets and liabilities expose it to cash flow interest rate risk. Interest margins may increase or decrease as the result of such changes and may reduce or increase losses in the event that unexpected movements arise.

The Bank minimizes interest rate risk through the lending of monies at fixed rates of interest financed by fixed rate long-term debt which are specifically earmarked to finance projects in the various economic sectors.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

23. RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Interest rate risk (continued)

The table below summarizes the Bank's exposure to interest rate risk. It includes the Bank's interest bearing financial assets and liabilities at carrying amounts categorized by maturity dates:

	2017				
	On Demand \$	Less than one year \$	One to five years \$	Over five years \$	Total \$
Financial Assets					
Cash (excluding cash in hand)	4,314,609	-	-	-	4,314,609
Restricted deposits - sinking fund	-	12,838,710	-	906,843	13,745,553
Loans receivable	-	12,519,971	3,214,261	5,590,830	21,325,062
Interest receivable	-	238,428	-	-	238,428
	4,314,609	25,597,109	3,214,261	6,497,673	39,623,652
Financial Liabilities					
Long-term loans	-	2,282,300	18,791,645	24,731,031	45,804,976
Interest payable	-	402,958	-	-	402,958
	-	2,685,258	18,791,645	24,731,031	46,207,934
Interest sensitivity gap	4,314,609	22,911,851	(15,577,384)	(18,233,358)	(6,584,282)
	2016				
	On Demand \$	Less than one year \$	One to five years \$	Over five years \$	Total \$
Financial Assets					
Cash (excluding cash in hand)	3,892,859	-	-	-	3,892,859
Restricted deposits - sinking fund	-	15,070,850	-	900,836	15,971,686
Loans receivable	-	10,853,645	4,453,659	5,855,141	21,162,445
Interest receivable	-	239,524	-	-	239,524
	3,892,859	26,164,019	4,453,659	6,755,977	41,266,514
Financial Liabilities					
Long-term loans	-	3,427,227	16,219,193	30,000,000	49,646,420
Interest payable	-	1,308,557	-	-	1,308,557
	-	4,735,784	16,219,193	30,000,000	50,954,977
Interest sensitivity gap	3,892,859	21,428,235	(11,765,534)	(23,244,023)	(9,688,463)

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

23. RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Interest rate risk (continued)

The sensitivity analysis has been performed based on the exposure to interest rates of financial assets and liabilities at the statement of financial position date. A 50 (2016: 50) basis point increase or decrease is used as it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables remained constant, the Bank's equity position for the year ended December 31, 2017 would increase/decrease by \$32,921 (2016: \$48,442). This is mainly attributable to the Bank's exposure to interest rates in its fixed rate liabilities.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, which affects the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return. Management mitigates this risk by not investing significantly in securities affected by market risk.

Reputational risk

Reputational risk arises from operational failures, failure to comply with relevant laws and regulations, or other sources which negatively impact the image or public profile of the Bank. The Bank manages this risk by only engaging in transactions with reputable entities, and adhering to a robust know-your-customer ("KYC") regime for current and prospective clients.

Compliance risk

Compliance risk arises in situations where the laws or rules governing certain activities of the Bank are not complied with. The Bank mitigates this risk by continuously educating its staff in this area and by employing its own Compliance Department to ensure that the laws and regulations that affect the client's business are adhered to.

24. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The capital of the Bank is represented by the share capital, reserve fund and accumulated deficit in the statement of changes in equity. The Bank's objectives when managing capital are to safeguard its ability to continue as a going concern.

Despite of incurring significant losses, capital management objectives were being satisfied through normal business operations and continued support from the Government of The Commonwealth of The Bahamas which is the sole owner of the Bank.

The Bank is not subject to externally imposed capital requirements.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2017

25. RECLASSIFICATION OF COMPARATIVE AMOUNTS

Certain amounts in the comparative financial statements and note disclosures have been reclassified to conform to the current year's presentation. The reclassification includes the comparative amount of \$15,971,686, which was previously presented in the Bank's financial statements as sinking fund netted against long-term loans, and has now been reclassified to restricted deposits - sinking fund.

The 2016 and 2017 presentation in the statement of financial position for 2016 reclassified balances are as follows:

	2017 As reclassified \$	2016 As previously presented \$
Restricted deposits - sinking fund	15,971,686	-
Long-term loans	49,646,420	33,674,734

Management believes that the above reclassification resulted in a better presentation of accounts and did not have any impact on prior year's statement of comprehensive operations.

26. SUBSEQUENT EVENTS

The Bank evaluated the impact of all subsequent events through March 20, 2018 which was the date the financial statements were available to be issued. There were no other adjusting and non-adjusting subsequent events that need to be disclosed or reflected in the financial statements.

Independent Auditors' Report pages 1 through 3.